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# **Different Forms of Agency and Institutional Influences within Multinational Enterprises**

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## **Abstract**

**Purpose:** Given their exposure to diverse institutional settings, decision making in multinational enterprises (MNE) is marked by inconsistencies and conflict. Within the comparative institutional analysis (CIA) literature, such inconsistencies are seen as a source of experimentation or innovation. By contrast, in the international business (IB) literature, institutions are primarily understood as constraints on MNE activity. The latter focuses on ‘institutional effects’ taking institutions as stable and determining of social agency. As a way of addressing this limitation, we aim to understand the conditions that enable actors to engage in strategic action despite institutional pressures towards stasis.

**Methods:** The research draws on systematic comparative case studies of two large MNEs in the chemical industry, headquartered in Germany and the UK, and operating in Italy, Germany, and Poland. It focuses on one example of agency, subsidiary efforts to change product formulations that are successfully developed by the headquarters.

**Results:** We demonstrate that agency within MNEs is influenced by a fit between MNE coordination structures shaped by home country institutions and host country institutions’ demands for flexibility or collaboration.

**Conclusion:** Institutional incompatibilities between home and host contexts are unlikely to trigger actors’ reflective capacity to change if the actors cannot draw on supportive coordination structures in the MNE. This is not just an ‘institutional distance’ argument as is commonly understood in IB. It is related to whether local institutions support the subsidiary to take advantage of specific opportunities conditioned by the home country institutions.

**Keywords:** embedded agency, host institutions, institutional incompatibility, MNE coordination structures

## Introduction

Decision making in MNEs is marked by inconsistencies and conflict owing to their exposure to diverse institutional settings. Although institutions are primarily understood as constraints on MNE activity, inconsistencies between them can be a source of experimentation or innovation. Inspired by this theoretical insight, we aim to understand the conditions that enable actors to engage in strategic action despite institutional pressures towards stasis. We emphasize the enabling effects of institutions and demonstrate the importance of a fit between MNE coordination structures shaped by home country institutions and host country institutions' demand for flexibility or collaboration in fostering agency.

Institutional theory has provided a rich theoretical foundation in MNE research (e.g. Dacin et al. 2002; Djelic and Quack 2003). However, most IB scholars have adopted a narrow view of institutions, drawing predominantly on the institutional economics understanding of institutions as 'rules of the game' (North 1990). They study institutions in terms of how diverse regulatory rules and legal norms affect the performance of MNEs (Brouthers 2002) or expose firms to politically-related hazards (Delios and Henisz 2000). Accordingly, institutions are understood as constraints on MNE activity, through transaction costs, differing resource environments or institutional distance. In this view, actors are understood as agents for legitimizing organizations to enhance the organization's likelihood of survival (Jackson and Deeg 2008). However, this view of institutions and their relationship to the agency of individual actors in the MNE is rather constrained. Achieving and maintaining legitimacy are difficult for MNEs given their operation in multiple, fragmented, often conflicting institutional environments (Kostova et al. 2008). Ambiguity created by such diversity can create room for strategic responses to institutions that involve creative reinterpretation and redeployment of resources for new purposes (Jackson 2005). In other words, the exposure to multiple institutional environments can trigger innovative change. Institutional change can result as actors use contradictions to reflect on the limits of existing institutional arrangements and to inspire ideas for new ones (Hardy and Maguire 2008). The question of how actors are enabled to engage in institutional work remains largely unanswered (Battilana and D'Aunno 2009). Consequently, we aim to address how institutionally-embedded actors are enabled to instigate change.

Given our discontent with the rather constrained view of institutions in the IB field, we turn our attention to comparative institutional analysis (CIA). Rather than adopting a variable-based approach to viewing institutional diversity, CIA scholars study institutions as interactively constituted, recognizing the social interactions among different institutional dimensions (Jackson and Deeg 2008). As firms' interactions are shaped by various institutions outside the firm, they may develop different internal capabilities and foundations for competitive advantage across countries (Hall and Soskice 2001; Whitley 2007). Similar to the researchers in the entrepreneurship literature (e.g. Bruton and Ahlstrom 2003), CIA scholars see institutions as both enabling and constraining actors.

More recently, CIA scholars have been shedding light on how institutions originate and evolve by introducing more agency into the creation and change of institutions (e.g. Crouch 2005; Hancké and Goyer 2005; Streeck and Thelen 2005). They seek to explain how actors experiment with novel uses and combinations of institutions to solve coordination problems or develop specific capabilities. In addition to reinterpreting and reforming existing institutions, actors are also seen as mobilizing resources to defect (i.e. ignore) institutions (Hall and Thelen 2009). Misalignments between institutionalized rules and situational demands for resources can create room for actors to engage in innovative changes (Crouch 2005). Seo and Creed (2002) refer to this as tensions within and between social systems that transform the embedded social actors into the change agents of established institutions.

While we believe that these new developments in CIA have added important new perspectives for the study of MNEs, in this study, we contribute further by bringing a new understanding to the idea of *actor agency* within MNEs that operate in diverse, potentially conflicting, institutional environments, i.e. the motivation and ability of actors, both individual (subsidiary managers) and collective (subsidiaries as a whole), to pursue and effect change where they can draw on supportive coordination structures in MNEs. Specifically, in our study, we examined the different forms of agency displayed by subsidiaries in the area of product development where there were different demands from home institutions, manifested in MNE structures, and host country institutions.

First, we distinguish between different forms of agency. We then offer a new perspective on how different types of agency emerge and what their relationship with

different institutional contexts is. By contrast to the IB literature, we show that institutions do not just constrain but also enable agency, and that active agency can, in turn, transform institutional arrangements (Hollingsworth 2003)<sup>1</sup>. Moreover, by contrast to the CIA literature, the study considers not just the compatibility of institutions between home and host countries, but also explores the role of MNE coordination structures in shaping the types of agency that emerge.

## **Theoretical Background**

### **Agency and Institutions within IB**

The IB literature acknowledges the role of institutions in firm strategy and performance across nations. The ‘institution-based view of strategy’ in IB research (Peng 2002, 2003) provides crucial explanations for why transaction costs arise, why resources are developed in a particular way and how organizations evolve. Institutions are understood as regulatory rules and legal norms that affect location decisions (Meyer and Nguyen 2005), mode-of-entry decisions and performance (Cuervo-Cazurra and Genc 2008; Dikova and van Witteloostuijn 2007; Brouthers 2002), and firm strategies (e.g. Zhao 2006). The success of MNE strategies such as agglomeration or export of practices depends on the specific types of national institution, such as the degree of market development (Lee and Beamish 1995) or distance from the host country (Ghemawat 2001). Comparative advantage is attained through a fit of strategy to host institutional context. For example, Meyer (2001) demonstrates that MNEs entering transition economies adapt their strategies to the local institutions in order to reduce exposure to highly imperfect markets.

IB scholars investigate single institutional effects *ceteris paribus* (Jackson and Deeg 2008). They adopt a variable-based approach to institutional diversity along discrete parameters at a high level of aggregation. This approach overlooks the potential for interactions among different institutional features of countries that lead to differences in kind. Rather, it aims to capture difference in terms of degree of institutional distance (Jackson and Deeg 2008). Although some IB literature and works on entrepreneurship in international settings (e.g. Bruton and Ahlstrom 2003) recognize that institutions do not fully determine action (e.g. Henisz and Zelner 2005), the view of institutions, by the very nature of its definition as ‘the humanly devised constraints that structure human interaction’ (North 1990: 3), remains rather focused

on how institutions constrain strategic choice (e.g. Peng et al. 2009). Most existing literature has emphasized the resources and capabilities of the entering firm (Peng 2001), and its need to minimize transaction costs (Buckley and Casson 1976; Hill et al. 1990). For instance, investments might be discouraged into institutionally distant countries (e.g. Treviño and Mixon 2004; Delios and Beamish 1999), in particular in markets in which policy uncertainty is high (Henisz and Delios 2001). The larger the institutional distance, the more difficult it becomes for the MNE to establish legitimacy in the host country and to transfer knowledge to foreign subsidiaries. The distance between home and host institutional contexts implies costs for coordinating activities cross-nationally. Given that the transaction costs of engaging in these markets are relatively higher, MNEs have to devise strategies to overcome these constraints (Peng 2008). In attempting to reduce transaction costs, it is observed that companies must choose between a hierarchy and a market mode of organizing, that is they are motivated by the internalization incentives related to control (e.g. Meyer 2001). For example, MNEs might establish a joint venture to access resources held by local firms to help counteract idiosyncrasies of a weak institutional context (Delios and Beamish 1999; Meyer et al. 2009). This conceptualization of strategic choice does not consider how institutions shape the capabilities of organizations to pursue different strategies. Overall, firms are seen largely as unitary, rational, and self-interested actors with stable preferences, constrained by institutional rules and norms. We address this limitation in the mainstream IB literature by demonstrating the enabling effect of institutions where host institutional demands are met by MNE structures that are shaped by home country institutions.

### *Agency and Institutions within CIA*

CIA has a long tradition in sociology and political science, and has contributed to the diversity in employment systems (Streeck 1992), and corporate governance (Aguilera and Jackson 2003). In CIA, institutions are understood as systemically interdependent configurations resulting in internal cohesion, i.e. as types that generate a particular systemic logic of economic action and competitive advantages related to complementarities among those institutions (Jackson and Deeg 2008). The emphasis is on *how* and *why* institutions differ across countries, often starting from a thick description of institutions (see Redding 2005) and a holistic analysis of institutions within a specific national ‘case’. Rather than treating institutional diversity in terms of

‘distance’, the CIA approach has developed a theory of comparative institutional advantage in which different institutional settings have distinct strengths and weaknesses for different kinds of economic activity. Institutions are seen by CIA scholars not only as constraints but also as resources for solving key problems of economic coordination through non-economic, value-rational sets of commitments (Jackson and Deeg 2008). Institutions shape financial and labour systems that are collectively available to firms, as well as market and non-market forms of coordination (Whitley 1999). This leads to diverse organizational capabilities. The assumption is that each firm is a coalition among different types of investors, employees and managers whose interactions are shaped by various institutions outside the firm. Institutional diversity affects the ability of MNEs to adapt their strategy to host country institutions (Whitley 2007). In spite of the same degree of ‘institutional distance’, the particular types of home country institutions can lead to different strategic adaptations on the part of MNEs (e.g. Edwards and Ferner 2002; Saka 2004). Furthermore, MNE strategies may be shaped by arbitrage between different institutional systems (e.g. Börch 2007). The embeddedness of MNEs in their home country institutions has a significant influence on the development of distinctive competences. For instance, firms in countries with a strong capacity for incremental innovation and diversified quality production, such as Germany, might be more likely to retain manufacturing in their home country than firms in liberal market economies (e.g. Geppert et al. 2003; Williams and Geppert 2011). The CIA approach to MNE strategy underscores institutional complementarities, i.e. the functional interactions between institutions in a particular case rather than single institutional variables. By contrast to the IB literature, CIA sees competitive advantage not so much as a fit of strategy to an institutional context but in terms of institutionally shaped capabilities for different strategies and types of coordination.

Going further, neo-institutional studies have documented the ability of actors, in particular those with some key strategic resources or other forms of power, to have significant impacts on the evolution of institutions and fields (Greenwood et al. 2002), including both institutional transformation (radical change) and deinstitutionalization (gradual change). Lawrence and Suddaby (2006, p. 224) argue that new institutions can be created through complementing or directly challenging existing institutions.

Based on these views, one can argue that agency is not the result of a degree of adaptation to a given institutional environment, but a response to interactions among



different institutional features of countries. CIA goes on to show that misalignments between institutionalized rules and situational demands are the space in which actors' choices may lead to innovative changes (Crouch 2005; Streeck and Thelen 2005). However, we believe that the condition of heterogeneity in institutional settings (i.e. contradictions between home and host country expectations) cannot adequately account for the variation in agency across firms that are embedded in different institutional contexts. We contribute to the CIA literature by demonstrating the importance of institutionally-shaped coordination structures—a source of resource that can enable or constrain action—that meet the institutional demands of host contexts in eliciting agency within MNEs.

In this paper, we define agency as the motivation and creativity that drive actors to break away from institutional constraints and established patterns of behaviour (Dorado 2005). Seo and Creed (2002) argue, for example, that individuals become more intentional and self-conscious when faced with institutional practices that contradict or conflict with each other. In turn, raised consciousness enables individuals to change or challenge institutional constraints. We identify different forms of agency along Emirbayer and Mische's (1998) conceptualization<sup>2</sup>: actors' orientation i) to '*project*' (i.e. to engage in imaginative generation of possible future trajectories of action, and ii) to '*iterate*' (i.e. to rely on the past) and to '*practically-evaluate*' (i.e. to respond to the demands of the present by making practical judgments among alternative trajectories of action). Iterative and practical-evaluative agency, given their orientations to the past and present, are less likely than projective agency to promote action that transforms or challenges institutions. Hence, we label these forms of agency as 'passive'. By contrast, projective agency, given its orientation to the future, may explain actors' efforts to breakaway from social constraints (Battilana and D'Aunno 2009). Hence, we label this form of agency as 'active'.

## Methods

The research drew on systematic comparative case studies of two large MNEs in the chemical industry, headquartered in Germany and the UK, and operating in Italy, Germany, and Poland. It aimed to investigate the processes where agency was triggered within a given institutional context and MNE coordination structure. It

focused on one example of agency: subsidiary efforts to change product formulations that were successfully developed by the headquarters (HQ).

We drew on Richard Whitley's well-known national business systems (NBS) typologies to classify our companies. According to Whitley (1999, p. 60), dominant forms of governance such as skills development and control, trust and authority, financial systems, and the role of the state in a given nation, what Hollingsworth (2003) calls institutional sectors, are seen as shaping different forms of business systems. Managerial coordination and work organization within the firm reflect the institutional context in which they are embedded. In line with our conceptual interests, we selected two MNEs with distinctive home institutional contexts, one originating from a compartmentalized form of governance, the UK, and another from a collaborative form of governance, Germany (see Whitley 1999). Compartmentalized national business systems are defined by arm's length and typically adversarial employment relations, with extensive unilateral control by management and strong management-worker separation. Consequently, the influence of employee interests on decision-making is low. There is emphasis on the reduction of agency costs through heavy reliance on formal mechanisms to order commercial relationships. There is also strong separation of strategic and operational management and the exercise of control via financial mechanisms. By contrast, collaborative national business systems encourage and support cooperation between collective actors. Key labour market institutions of collective bargaining, co-determination and initial vocational training call for HRM by a pluralistic style. Employees are encouraged to participate in management decisions through works councils and are backed by extensive legislation. Managers rely on firm-specific relationships, i.e. commitment, to exercise control (Aguilera and Jackson 2003).

Subsidiaries were selected on the basis of their differences in institutional demands from home country-shaped MNE structures. The Polish subsidiary is embedded in a mixture of state-organized and compartmentalized national business system where the state continues to dominate economic development and guides firm behaviour although its influence is declining (Meardi et al. 2009). Similar to other Central Eastern European countries, collaboration within sectors is reduced and horizontal linkages between actors across sectors and employer-employee interdependence are limited by strong ties of vertical dependence (Czaban et al. 2003). Trade unions are politicized, employer associations are weak, and there is

single-channel employee representation (Meardi et al. 2009). By contrast, the Italian subsidiary is embedded in a coordinated industrial district (see e.g. Whitley 1999). It is located in Lombardy, which is a designated chemical district constituting one of the 20 regions of the European Chemical Regions Network (ECRN). In comparison to the compartmentalized system of the UK, there is greater degree of alliance in such districts, with extensive commitment between business partners, significant coordination of activities through alliances, and greater employer-employee interdependence (Whitley 2007).

As can be seen in table 1, the differences in institutional demands between the international mode of coordination in the UK home and those of the German host context (commonly referred to in CIA as polar national cases), and the global mode of coordination in the German home and those of the Polish host context, were greater than those between the structure in the UK and institutional demands of Poland and between the structure in Germany and institutional demands of Italy. In the UK and Poland, there is limited coordination and long-term commitment to business partners is more difficult to develop. Given the strong separation of strategic and operational management in these two countries, we label the host country demand as one for *operational flexibility*. In Germany and Italy, the type of business system is collaborative, and the host country demand is one of *collaboration*. We capture home country institutions in their manifestation in MNE coordination structures, for these structures are shaped by home country institutions. Greater levels of authoritative integration of innovative activities occur in societies where there are stronger constraints on opportunistic behaviour. Such integration can be achieved either through state commitment to particular innovation goals and/or through inter-firm alliances and business groups as found in CMEs (Whitley 2007, p. 62). Sharing knowledge and collaborating in the development of innovations is easier and less risky in CMEs than in more arm's length ones such as LMEs (ibid.). Hence, there would be a greater tendency for German firms to adopt an integrated network model emphasizing collaboration, and for UK firms to adopt an international model emphasizing financial rather than operational controls by HQ.

We identified subsidiaries' affiliation with a particular MNE coordination structure, which was either the international or the combination of integrated network and global coordination structure along two dimensions: i) the extent to which capabilities and decision-making were decentralized, and ii) the extent to which there

was high interdependency of work between the subsidiaries and HQ (Bartlett and Ghoshal 1989; Harzing 1999). They were based, initially, on our interviews with strategic managers at the British and German MNEs and MNE documents on the extent to which capabilities such as R&D were decentralized to various global operations. In the course of data collection, we sought further evidence of this categorization in subsequent interviews at HQ and subsidiaries. For instance, the British MNE's approach to developing subsidiary capability was much more *centralized* than that of the German MNE operating in Western Europe. The VP of marketing of the British MNE argued that "ours would still be seen as a command and control structure". As regards the interdependency of work, *knowledge was developed at the centre and subsequently transferred to overseas units*.

Table 1 provides an overview of the sampled cases.

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Insert Table 1 about here

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In the late 1990s, the British MNE, facing pressure to maximize returns on a single project, adopted an international strategy. This shift brought with it formalization, particularly in product development, where subsidiaries were primarily regarded as appendages to a central domestic corporation. Similarly, given competitive pressures to improve profitability in mid-1990, the German MNE adopted a mix of transnational (among Western European (WE) sites) and global strategy (among Central and Eastern European (CEE) sites) to operating outside the domestic market. In other words, there was an emphasis on specialized operations and interdependent relations among WE operations. Whereas, the CEE operations were managed centrally by the Austrian CEE HQ, and granted less autonomy than WE operations. For instance, they were not involved in new product development.

## **Data Collection**

The field study employed 35 open-ended and semi-structured interviews conducted between March 2002 and May 2003 with executives overseeing international operations in marketing, manufacturing, HR and R&D at the parent companies and their counterparts at the subsidiaries, as well as factory visits and document analyses. Information was sought on the types of practices that were transferred, resources that were made available by the parent company, the role of the parent company in

subsidiary's operations, the procedures that were adopted by the parent company for the subsidiary team's participation in the development and launch of an innovative product, and the way the product was modified to meet the preferences of the given host market.

In line with the conceptualization of agency by Emirbayer and Mische (1998), we categorized agency as 'active' or 'passive' (defined theoretically on page 9) in the following manner. Active agency occurred when subsidiaries displayed new patterns of thinking about business objectives in anticipation of future needs (Sadler-Smith et al. 2001). Actors' efforts were directed at projection that promoted the transformation of the institutional arrangement of markets. An example of active agency is the introduction of a new product idea to increase market share or to fight local competition that leads to a shift in industry trends in a given host market. Passive agency was characterized by an actor's inclination to iterate or apply transferred practices (Sadler-Smith et al. 2001). These did not involve any fundamental changes to the institutional arrangements of markets. An example of passive agency is the adaptation of raw materials in product formulations to the host context that does not necessarily lead to transformation in market structure.

We employed Mill's method of systematically comparing cases with different types of agency. CIA studies often rely on comparisons of how firms perform or adjust to similar pressures in two or more national 'cases' (e.g. Wever 1995). Mill's method is suitable for configurational theory (where institutions are viewed as interdependent configurations rather than in isolation) since it explicitly conceptualizes cases as combinations of attributes. In other words, different causal conditions are understood in relation to one another and in terms of the total picture that they constitute. Similarities and differences across the cases are collated in a single, coherent framework. Each unique configuration of causal attributes becomes a 'whole' that is treated as being distinctive from every other configuration. The method does not ask about the *independent* effect of a variable on the likelihood of a particular form of agency. Rather, it considers configurations of values on the independent variables as cases. The analysis aims to isolate which *cases* display active agency. Those cases represent the *conjunction of causal attributes* that produce active agency (George and Bennett 2005).

Initially, detailed case studies were conducted that captured contextualities in agency such as the mode of control that the MNEs exercised on their subsidiaries.

This first step determined the main conditions to a given outcome within each particular case. This was followed by a comparison across cases conducted systematically to allow for theoretical generalization. This second step determined necessary and unnecessary conditions<sup>3</sup> associated with the outcome. Method of agreement and method of difference were adopted for comparing cases with different types of agency (Mill 1974). Initially, an instance of active agency (Polish subsidiary of British MNE) was compared with another instance of active agency (Italian subsidiary of German MNE) to identify similar bundles of conditions associated with a similar outcome (method of agreement). This analysis revealed a ‘fit between MNE coordination structure and host country demand for operational flexibility or collaboration’ as a common condition. This was followed by a method of difference where cases with dissimilar types of agency were compared. In other words, an instance of active agency (Polish subsidiary of British MNE) was compared with an instance of passive agency (Polish subsidiary of German MNE) to identify ‘bundles of conditions’, i.e. a misfit between MNE coordination structure and local host demands, mode of entry into host country, and mode of control that explained for the variation. A combination of the two methods eliminated ‘mode of entry’ and ‘mode of control’ as necessary conditions and revealed the mis/fit between ‘host context demand’ and ‘MNE coordination structure’ as influencing different types of agency.

Open and axial forms of coding were used to identify categories and related sub-categories respectively for a given type of agency (Strauss and Corbin 1998): for instance, the responses to the question on ‘the way the product was modified by the subsidiary to meet the preferences of the given host market’ focused on knowledge transfer. By the same token, the question on ‘the resources that were made available by the parent company’ revealed information on the organizational capabilities of subsidiaries (Whitley 2007, p. 147). As other respondents acknowledged these, theoretical saturation was reached and ‘knowledge transfer’ and ‘subsidiary capability’ were included as categories in the analysis. Sub-categories were identified on the basis of the categories’ properties and dimensions such as the ‘direction of knowledge transfer’. To verify the explanatory power of the codes, axial coding was carried out to relate sub-categories or conditions to the type of agency outcome (see the appendix for an illustrative list of codes and their definitions as well as the statements denoting how these are related).

The reliability of the findings was enhanced by making explicit the procedures that were followed for data collection. These procedures included matters of interview protocol, tape recordings of interviews, and feedback on transcriptions from participants. Within case companies, interview data from a particular work group, such as R&D, were checked against responses from another group, such as marketing, to validate findings. Similarly, subsidiary and parent company members' accounts were cross-checked against each other. Protocols incorporating schedules of company visits and members to be interviewed were developed. Interview transcriptions were scanned to identify patterns of active and passive agency at subsidiaries, as well as the 'bundles of conditions' that accounted for the variation in types of agency.

## Findings

Our findings indicate that heterogeneity of institutional settings *per se* is not sufficient to promote active agency. Institutional incompatibilities are unlikely to trigger actors' reflective capacity to redefine existing institutional arrangements if these hinge on unsupportive coordination structures. For instance, the German subsidiary of the British MNE displayed passive agency despite differences between home and host institutional contexts, because its international coordination structure did not support multiplex inter-firm networks, a high degree of internal participation, or the reliance on firm-specific relationships in Germany (Aguilera and Jackson 2003). Similarly, in spite of an institutional incompatibility between the German MNE and the Polish subsidiary, the Polish operation also displayed passive agency. The subsidiary was only a 'peripheral participant' within the German MNE network structure (Clark and Geppert 2006), and its functional and operational integration within the MNE group was weak. By contrast, we found that where there was a fit between MNE structures embedded in home institutional contexts and host context demands, there was active agency where the MNE coordination structure served as a means of mobilizing resources. These findings are discussed in more detail below. Table 2 provides an overview of the contextual influences on types of agency across the subsidiaries of two MNEs.

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Insert Table 2 about here

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### **Passive Agency at the British MNE's German Subsidiary**

In the German subsidiary, there was passive agency in the form of 'iteration and application' of product formulations (i.e. the introduction of new techniques without major change to behaviour) rather than 'projection' or planned new uses of knowledge for the future. This was related to a misfit between an international mode of coordination shaped by a compartmentalized national business system and host demand for collaboration.

In spite of its local responsiveness to market differences in terms of packaging and colour range, the British MNE mainly exported product ideas and recipes to its European subsidiaries (i.e. knowledge flowed from the parent to subsidiaries): "Knowledge is developed at the centre and exported to overseas units" (strategic research manager, British MNE). Subsidiaries were responsible for minor changes to the product.

For local development of products, usually that is best done very close to the customer in a local country, you know, you are putting few extra colours on to the colour range or just making a small change to a particular product...We do have a discipline, a template, an operating framework that says what is decided where, which decisions are to be taken locally, regionally, internationally and what things you need to tell people (research and innovation director, British MNE).

The rules, procedures and policies for new product development were standardized and formalized. The MNE supported the development of its German subsidiary's innovative capability by transferring engineering and manufacturing process improvement know-how labelled as the 'paint plant of the future', as well as technology needed to adapt product formulations developed at HQ to the raw materials in Germany. However, despite the shift towards a more centralized mode of coordination in the late 1990s, there was no emphasis on expatriate management or international training to acculturate subsidiary members at the MNE. The emphasis was on exporting product ideas and improvements in manufacturing accuracy.

With the [X brand], what we did is that we exported it from the UK. So they [the German subsidiary] took the same range as the UK, and then gradually over a period of time, we formulated a match using their raw materials...They sorted their factory out in terms of their quality. So



they are now making it for themselves as well as for Czech and Hungary. (general manager R&D Europe)

Product ideas transferred from HQ tended to meet resistance at the German subsidiary owing to a pre-existing culture established prior to its acquisition by the British MNE in 1998.

Four years ago, when I discussed this with Germany and the UK, they [Germany] asked ‘why do you want to launch this when other paints cover well, better than those of the competitors?’ (observed by the marketing director at the Polish subsidiary).

“Special practices such as quality management systems in the UK [at British Chem] are spread internationally to improve efficiency and quality. The knowledge that is being transferred from HQ has not changed anything fundamentally” (senior product manager at the German site). There was limited use of data for continuous improvement, lack of discipline and urgency in shop-floor activities. This was, in particular, conspicuous in the filling area. Its organizational capability was characterized by the managing director as “cumbersome processes in introducing new products, hierarchical decision-making processes with long lines of communication, cumbersome sign-off processes, [emphasis on] departmental interdependencies rather than an entrepreneurial style, and an ‘it is not my problem’ mindset” (managing director at the German subsidiary).

The subsidiary assumed a reactive orientation to improving its processes in continuous steps to meet HQ standards.

Because people used to be independent for 40 years in their history and all of a sudden there comes a parent company, puts a foot on us and says ‘we will guide you through some of our standards. We have got company standards that you have to follow’, people see that sometimes as pain. (managing director at the German subsidiary)

The German subsidiary adhered to old ways of working and pragmatically adapted its products to the German market rather than reoriented its strategic approach.

### **Active Agency at the British MNE’s Polish Subsidiary**

In the Polish subsidiary, actors emphasized experimentation and risk taking. They displayed projective agency by anticipating future market needs. This was associated with a fit between an international mode of coordination shaped by a compartmentalized national business system and host demand for operational flexibility.

As in the former case, rules and procedures for new product development were standardized and formalized, and product recipes and manufacturing-related knowledge were exported from the HQ to Poland. “All recipes are owned, in fact, by the UK. So if we want to make changes to the recipes, those need to be approved by the UK” (marketing director at the Polish subsidiary). This was related to time and resource constraints such as the size of the R&D department at the Polish site (head of research lab at the Polish subsidiary). If the Polish site had an idea for a new product, its recipe could be prepared in Poland, the test results discussed with the parent company, and the product sold under the international brand name. However, despite the importation of product ideas from HQ, the Polish site displayed an active orientation to changing templates for behaviour by, for instance, introducing new products to the market that shifted the industry trend.

In terms of the sophistication in the Polish market now...there was no really major paint company there, the paint companies have gone in and started to grow the market from a value point of view, getting them into colour, bringing innovation into the marketplace...As a market, it has proved really responsive to the innovation...They are responding much more readily than say the Germans did, who have perhaps been stuck in their way. (general manager R&D Europe)

New product development was discussed on a regular basis with the HQ. Although the subsidiary was perceived as the least technologically advanced of all players in Poland, and had the smallest and the least technically equipped R&D lab, it had responsibility over low-volume, highly profitable, and value-added brands during the preliminary phase of the launch on the market (marketing director at the Polish subsidiary). There was heavy emphasis on experimentation at the site, which was also evident in the site’s receptivity to new ideas from HQ. “They [the Polish subsidiary] are hungry for ideas. This is not to say they do not have good ideas of their own, but they are hungry” (general manager for R&D Europe). By contrast to the former case

and despite its similarity in ownership structure, the Polish site engaged in proactive search for ideas in the British MNE's pool of expertise and introduced these to the market. In 1998, it introduced colours in the market when the paint industry was moving in the direction of the tinting business.

About four years ago, we were looking at different products to launch which would be innovative, different and better than what the competition has got. There were no products...the market at that point in time seemed to be following the way of developing the tinting business...Looking at the UK market, there were suggestions that launching colours would not be a bad idea, because it works in the UK. However, we are afraid of advices of doing something because it works in the UK. So we did not really know which would be the preferred route. (marketing director at the Polish subsidiary)

When market results pointed to important benefits to consumers, the site was encouraged to launch colours, and subsequently raised its rank to a second position in the marketplace.

### **Active Agency at the German MNE's Italian Subsidiary**

In the Italian subsidiary, actors took strategic action to transform the market (i.e. assumed projective agency). This was related to a fit between an integrated network mode of coordination shaped by a collaborative national business system and host demand for collaboration,.

The Italian subsidiary, which had been operating as a greenfield site since 1935, participated in the strong, tightly-knit network of Euro-team meetings of the MNE. This network encouraged both the importing and exporting of knowledge on product ideas between HQ and the subsidiary (i.e. knowledge flowed both ways between the parent and the subsidiary). It focused on building a strong corporate culture, acculturating members of the network through international management training and secondment. Although there was not a transfer of manufacturing excellence techniques to the Italian site, HQ-developed product recipes were introduced for local adaptation. The subsidiary was able to change not only fragrances and colourants, but also the viscosity levels of products, upon lengthy negotiations with HQ. For instance, it re-launched a product formula to replace the bio-degradable

old raw material. Initial studies were carried out in Germany. The process was then adapted in Italy, France, and Spain.

We worked 10 years ago to re-launch formula with a new raw material. The reason was the bio-degradability of the old raw material. So an international team was established. We were part of this team. First, studies were done in Germany. We then worked to adapt the process in Italy, France and Spain...High viscosity was very important for Italy, but not so important for other countries. So we had to find a way to increase the viscosity of the product having the same level of cost as in other countries. We followed a very precise process with specific parameters. The results were then sent to Germany” (R&D manager at the Italian subsidiary).

Their strong test results convinced HQ to approve the project. Going even further, the subsidiary proactively took the decision to introduce a marsiglia-based variant to fight competition from international brands, particularly in softeners, even though it was strongly opposed by the parent company.

It is a huge trend for Italy. Marsiglia is a soap bar, which was used in the past, in the 20<sup>th</sup> century, a soap used by my grandmother. It has a very characteristic odour. It is quite well known for being quite effective...It is cheap and environmentally friendly...About four to five years ago, we saw a trend in the detergents [among local producers] that were using this marsiglia soap as a marketing concept. It was an enormous success...We were the first to introduce it into dishwashing, then into softeners. Can you imagine into the softeners? It took us three to four years to convince Germany in this case that marsiglia was an interesting trend. (product manager at the Italian subsidiary)

Such experimentation and risk-taking at the subsidiary provided the variety and diversity of ideas necessary to develop new business opportunities and then put them forward to parent company managers. The subsidiary initiated changes of a strategic nature to fight competition. It also enabled HQ to benefit from local experiences. This is illustrated by the Italian subsidiary’s experience in physical behaviour of particle sizes in dispersion and shared stress, which required trials in a facility that did not

exist outside of Italy: “We have this kind of experience and facility here, thus had more possibility than colleagues in Germany [HQ] or in Spain and France to perform trials. We also have experience in [Y brand] softener, because Lomazzo was one of the first plants to produce softeners in the [German MNE] Group...Speaking of shared stress in such detail was not usual in our field, but that was what we made use of” (R&D manager at the Italian subsidiary).

### **Passive Agency at the German MNE's Polish Subsidiary**

In the Polish subsidiary, actors displayed practical-evaluative (i.e. passive) agency. This was associated with a misfit between a highly centralized global mode of coordination among the CEE operations and a host demand for operational flexibility.

By contrast to its Italian counterpart, there was no evidence of the German MNE importing product ideas from its Polish subsidiary. Although the MNE had been in operation since 1931 in Poland, its historical ties were not as strong as those with, for instance, Hungary. The MNE emphasized the exporting of marketing techniques and technical tests to Poland. “[A] lot of the marketing mix is developed in the HQ. And the countries are responsible for an excellent execution of this initiative” (Austrian marketing manager at the Polish subsidiary). “95 per cent of the communication is always going through Austria. When Romania wants some information from Poland, they are asking us and we are asking Poland” (brand manager at CEE HQ). New product development decisions were also taken at HQ.

A country can come and say it would be interesting to develop for example soap paste, which is still in use in countries like Romania. Then we get a proposal to develop such a product. But they do not develop it in their own country...because you need the background...I know in the HQ many persons for 17 years and know where they have started...So we [CEE HQ] have the networking advantage owing to the long history.  
(R&D manager at CEE HQ)

As a member of the CEE network, the Polish subsidiary was managed from a more centralized global approach whereby decisions were taken by the Austrian HQ. The subsidiary did not have any responsibility in new product development or over technical modification of existing products for a strategic reorientation. Rather, it prepared labels in accordance with the Polish law, registered detergents with the

Polish authorities, and performed quality checks on locally-produced goods (R&D manager at the Polish subsidiary). According to the HQ, “there is mismanagement in the company. The company is not run properly. The investment is not there. State-of-the-art product cannot be made. There is good technology and highly skilled people available, but the whole system is totally bankrupt” (corporate VP manufacturing at German MNE). The emphasis at the Polish site was in bringing local practices into line with those of the parent company where actors oriented towards the iteration of product formulations.

### **Comparative case discussion: Agency in its link to a fit between MNE coordination structure shaped by home country institutions and host context demand**

The findings point to a variation in the type of agency displayed across subsidiaries. Whether agency is passive or active seems to depend on a fit between MNE coordination structure embedded in a particular home institutional setting and host country demand.

As the findings at the British MNE demonstrate, the coordination of subsidiaries in an international form, i.e. as appendages to a central domestic corporation, encourages the exporting of knowledge. The MNE neither has HQ personnel serving its German and Polish subsidiaries, nor provides technical international training to its subsidiary members. Rather, it chooses to standardize and formalize rules, procedures and policies to co-ordinate and control activities. There is a strong separation of strategic and operational management and the exercise of control via financial mechanisms (Aguilera and Jackson 2003). Furthermore, the deficiency of the compartmentalized national business system in the area of skill training as that in the UK (Lane 1996; Whitley 1999) has negative implications for the MNE’s long-term growth strategy. Anglo-Saxon managers typically receive education in ‘general’ management with a strong emphasis on finance (Aguilera and Jackson 2003). “The much lesser degree of institutional embeddedness of British firms and their only weak exposure to a consistent and widely obligatory system of institutionalized rule systems [in comparison to German firms], endows firms with greater autonomy but also leaves them far less supported by and implanted in various kinds of networks” (Lane 2000a, p. 195). As the mode-of-entry into Germany and

Poland indicates, the British MNE chose to limit commitment to and mutual dependence on subsidiaries through acquisitions. Its looser inter-firm networks and fewer multiplex relationships with capital ties dominated by purely financial interests, relative to German firms (Aguilera and Jackson 2003), created room for the Polish subsidiary to display strategic orientation. The international coordination structure offered a fit with the host country demand for operational flexibility of the Polish subsidiary.

By contrast, a misfit of the German case with the British MNE's coordination structure explains why we found rather passive form of agency, i.e. resistance to product ideas developed at the British HQ. The operation's rich administrative heritage has a role to play in its reliance on the past and passive orientation to new ideas. The subsidiary is characterized by strongly embedded routines that overlap with many other structures that are common in the German institutional context (see Hall and Soskice 2001), which inform actors' orientations. As Howard-Grenville (2005, p. 633) argues, "if routines are experienced as primarily embedded in cultural structures of coordination, orientations toward them might be more iterative, as the enactment of these structures tends to draw heavily from the past". By the same token, Seo and Creed (2002) contend that the greater the nonadaptability, or the extent to which institutional arrangements are deeply embedded and tightly coupled, the less likely will be the reflective shift in collective consciousness. Managers rely on firm-specific relationships, i.e. commitments, to exercise control (Aguilera and Jackson 2003). Their functional conception of managerial control suggests stronger integration of operational functions. A high degree of internal participation tends to foster consensus and cooperation in the implementation of decisions (Rogers and Streeck 1994). Cooperation that takes place through a variety of mechanisms in Germany, such as networks, associations and the state, can be constraining for the adoption of a set of practices along an alternative mode (e.g. Streeck, 1997). The multiplex inter-firm networks in Germany can act as a restraint on agency in the absence of supportive MNE coordination structures.

Unlike the German MNE, the British MNE does not emphasize social integration mechanisms to break institutional logics at its German subsidiary. There is inconsistency between the local demands for collaboration and commitment and home institutional pressures for standardization and formalization manifested in a centralized approach to coordinating MNE activities that encourages passive agency.

This contradicts the argument within CIA that discrepancies between institutionalized rules and situational demands for resources can create room for actors to engage in innovative changes (e.g. Crouch 2005). Although comparative institutional analysts (e.g. Streeck and Thelen 2005) and neo-institutionalists (e.g. Seo and Creed 2002) argue that ambiguity created by diversity in institutional environments can create room for strategic responses to institutions, our study indicates that innovative capacities can be limited (as in the German subsidiary) by an unsupportive MNE coordination structure (such as that of the British MNE).

In comparison to the British MNE, the coordination structure of the German MNE functioned rather differently, having different implications for agency. In the Italian case, the German MNE coordinated its operations by emphasizing the development of horizontal linkages and subsidiary capabilities through cross-functional teamwork, training and visits for exchange of experience between HQ and local units (R&D Manager at German Chem's Italian subsidiary). The multiple linkages between HQ and overseas subsidiaries enhanced the subsidiary's ability to influence key HQ decisions, particularly in product specifications and design. The Euro-team meetings, which served as integrating mechanisms between various research teams (cf. Zander and Sölvell 2000), socialized local managers into the corporate culture and created a network for the cross-fertilization of ideas between subsidiaries and HQ. This is consistent with the characteristic of a collaborative national business system where managers adopt a functional conception of managerial control (Aguilera and Jackson 2003). This refers to a greater integration of operational functions through technical specialization or strong personal involvement than in British firms. The company emphasizes the acculturation of its subsidiaries through international transfers of managers and international training (Lane 2000b). This is in line with the long-termist approach to development that is complemented by a highly developed system of vocational education and training in Germany (Ferner et al. 2001). German MNEs are more likely to send out expatriates to their subsidiaries than MNEs from other countries, in particular from the USA and the UK (Harzing 2001). The 'indirect personal form of control' through an emphasis on strong corporate culture (Harzing 1999) at the German MNE is particularly evident in its more developed subsidiaries, such as the Italian operation, that participate in the WE network of new product development. The 'direct personal mode of control' through the use of expatriates is more noticeable at the less developed Polish site than at the



Italian subsidiary. As the Italian subsidiary demonstrates, the German MNE's institutionally characteristic attempt "to recreate the model which combines a high-skill work force with a matching organization of technology also in other countries, by undertaking a systematic effort to transform the labour force" (Lane 2000a, p. 203) through an integrated network of knowledge exchange encourages active agency. Actors respond proactively to knowledge diffused by the parent company by revising product designs that are directed at the future needs of the organization. In short, the more proactive orientation of the Italian site is related to an MNE coordination structure that is compatible with host country demands.

A comparison with the case of the German MNE's Polish subsidiary illustrates that a network structure of coordination did not serve as a medium for active agency, as in its Italian counterpart. The CEE network, led by Austria, to which countries such as Poland, the Czech Republic, Hungary, Romania, and Slovakia belong, are granted less operational flexibility than those of the WE network. One of the reasons for this is that the WE network generates about 70 per cent of German MNE's net sales. This gives these subsidiaries the importance of weight: "If I am the bigger country and I have a problem with the blue [variant of a product], even if in all other countries the blue is an interesting concept but there is a problem conceptually in Italy, then the coordinator, the steerer will say maybe I need to listen to you more than a country that weighs five per cent" (product manager at German MNE's Italian subsidiary). In other words, the Polish subsidiary did not have access to resources found in the MNEs network structures. Rather, it displayed passive agency associated with a misfit of MNE coordination structure with host country context demand.

The key message of our comparative analysis is clearly demonstrated by the two cases that are embedded in the same host country (Poland), which display opposite approaches to agency. We observed passive agency at the Polish subsidiary of the German MNE, which resulted from the failure of the German MNE's coordination structure to respond to the host demand for operational flexibility. By contrast, the Polish subsidiary of the British MNE benefitted from a fit between the MNE's international coordination mode and the host demand for operational flexibility. As the development of local competences was not constrained by obligational ties to partners or high levels of MNE control (e.g. Otterbeck 1981), as it was with the German MNE, the Polish subsidiary of the British MNE could develop distinctive capabilities by drawing on its local expertise. Our comparison of the two

Polish cases reveals that the strategic approach of the British MNE was more supportive of a proactive orientation based on the provision of operational flexibility that allowed for local solutions and a local context that supplied knowledge of actors to the process. In comparison to the British case, where significant improvements of financial performance were sufficient to enhance the subsidiary's power position, the Polish subsidiary of the German MNE retained its position as a 'peripheral participant' within the MNE's global network structure. Its functional and operational integration within the MNE group, a precondition for developing financial performance in diversified quality production-focused German MNEs (e.g. Aguilera and Jackson 2003), remained rather weak, discouraging new patterns of thinking about business objectives. Thus, our study confirms the contention in CIA that "'innovation' [taken to mean practices that are unfamiliar in the host context] may be easier in less actively regulated business and employment systems" (e.g. Almond et al. 2005, p. 281). However, our study goes beyond this to show that the emergence of active agency depends on a compatibility between an MNE's coordination structure and the needs and demands of its host country subsidiary.

## **Conclusion**

In this paper, we contribute to addressing the paradox of embedded agency. A significant part of the promise of institutional work (Lawrence and Suddaby 2006) as a research area is to establish a broader vision of agency in relation to institutions, one that avoids depicting actors as either cultural dopes or hypermuscular institutional entrepreneurs. Our aim is to understand the conditions that enable institutionally-embedded actors to engage in strategic action (in our case, in the area of product development) despite institutional pressures towards stasis.

Heterogeneity of institutional settings is often assumed to stimulate change. Our research does not support this. What it shows, by contrast to key arguments of the mainstream CIA literature, is that active agency by subsidiaries corresponds to situations where the MNE coordination structures are supportive and correspond to the needs and demands of the host country subsidiary. This is not just an 'institutional distance' argument as is commonly understood in IB. It refers to whether local institutions support the subsidiary to take advantage of specific opportunities conditioned by the home country institutions. This is based on the conceptualization

of institutions as distinct national constellations, drawn from CIA, to understand how and why different institutions impact firm behaviour. Hence, our findings point to the need to revisit the conceptualization of 'institutional distance' in IB to consider which institutions matter in what ways.

Accordingly, our case discussion has shown that, at the British MNE, while decision structures were more formal and centralized, subsidiaries had fairly substantial operational flexibility to make decisions in their daily business. This stimulated active agency in the Polish subsidiary, which, because of the legacy of state control was both accustomed to centralized coordination and keen to generate the much needed innovation. However, the German subsidiary, embedded in its own national industry networks, struggled with centralized coordination based in the UK and displayed only passive agency. At the German MNE, the emphasis on integrated network coordination and a strong corporate culture inspired active agency in its Italian subsidiary, which also had a strong tradition of innovation and collaboration within its local networks. By contrast, the Polish subsidiary remained on the periphery of the core collaborative MNE network that made key decisions and distributed resources for innovation, and displayed passive agency.

The findings have implications for both parent company and subsidiary managers. For the former, they point to the importance of aligning coordination structures with host context requirements to facilitate innovative changes. For the latter, the results highlight the significance of striving for 'optimal distinctiveness' (Alvarez et al. 2005), i.e. for a balance between seeking legitimacy and maintaining unique identity to differentiate oneself.

Additional research could contribute further to studies on agency within the MNE by shedding light on how agency at the individual level can influence national-level institutions. Most studies to date have focused on the organizational level of analysis, neglecting the orientations, motivations and impact of individual actors (Reay et al. 2006). At the same time, as action is embedded in organizations which are, in turn, shaped by institutions, it is critical that we address both organizational and institutional levels of analysis to facilitate a more comprehensive understanding of agency. Such multilevel research has been suggested as a promising avenue of research within the framework of institutional theory (Friedland and Alford 1991; Reay et al. 2006).

## Endnotes

1. Hollingsworth (2003, p. 132) recognizes that institutional analysis occurs at multiple levels. At the first level, there are the basic norms and rules of a society. On the next level of analysis, there are *institutional arrangements* that coordinate various economic actors. These consist of markets, associations, communities and clans. The next level consists of the *institutional sectors*. The norms and rules of a society influence the array of institutional arrangements, and both of these influence the nature of, and the relationship among, various institutional sectors that include a society's distinct system of education, legal system, business system and financial system. We focus here on transformation of institutional arrangements.
2. Although Oliver (1991) represents the first systematic attempt at articulating the range of potential responses available to organizations facing institutional pressures, her view reflects a unidimensional understanding of agency. A problem with such a view is that it does not clearly specify the extent to which actors can affect the social world for them to be regarded as having a high versus a low level of agency (Battilana and D'Aunno 2009). We adopt here the multidimensional view, following Emirbayer and Mische (1998), where actors' engagement with the social world can both reproduce and transform an environment's structures. We conceptualize agency as a temporally embedded process of social engagement, informed by the past (in its habitual aspect), but also oriented towards the future (as a capacity to imagine alternative possibilities) and towards the present (as a capacity to respond to the demands of the present) (Battilana and D'Aunno 2009).
3. A condition is *necessary* for a given outcome if it is always present when the outcome occurs, i.e. when the outcome cannot occur in its absence (George and Bennett 2005; Rihoux and Ragin 2009). Consequently, an *unnecessary* condition is that which is always absent when the outcome occurs. Charles Ragin (1987) has coined this term to distinguish between conditions that are associated with the outcome and those that are not related to the outcome. This is further exemplified by Rohwer (2011) where the method is argued to trim components that are logically *unnecessary* for the presence of the outcome in one or more case(s).

## Appendix: Illustrative list of codes associated with agency

Categories related to the agency outcome	Sub-categories	British MNE		German MNE	
Knowledge transfer (i.e. the direction in which product ideas and process know-how flow)	Exporting/Importing of knowledge	<p>“Knowledge is developed at the centre and exported to overseas units”</p> <p>“With the [X brand], what we did is that we exported it from the UK. So they [the German subsidiary] took the same range as the UK, and then gradually over a period of time, we formulated a match using their raw materials”</p> <p>“All recipes are owned, in fact, by the UK. So if we [the Polish subsidiary] want to make changes to the recipes, those need to be approved by the UK. There are people from the UK labs who come here and advise”.</p>		<p>“Marketing units operate in Euro team [which consist of a strategic business unit member from the headquarters and marketing managers across Europe. The Euro team notion is quite important. They aid in forging interdependency among [Western European] subsidiaries to stimulate new product development”.</p> <p>“A country can come and say it would be interesting to develop for example soap paste, which is still in use in countries like Romania. Then we [HQ] get a proposal to develop such a product. But they [CEE subsidiaries] do not develop it in their own country”.</p>	
Categories related to the agency outcome	Sub-categories	German subsidiary of British MNE	Polish subsidiary of British MNE	Italian subsidiary of German MNE	Polish subsidiary of German MNE
Mode of control (i.e. the extent to which decision making is centralized, standardized and formalized)	Direct/indirect-personal/impersonal nature of control	<p>“We do have a discipline, template, an operating framework that says what is decided where, which decisions are to be taken locally, regionally, internationally, and what things you need to tell people”.</p> <p>“We are much better organized in terms of having country managers and functional structures, which are much more European-based. So in terms of R&amp;D, although we have some labs such as that in France and in Poland, our activities are all pretty well managed in terms of knowing what is going on and who is doing what”.</p>		<p>“You [HQ] invest in a lot of infrastructure, not only machinery and equipment, but you build up very much in people, education, training”.</p> <p>“We [HQ] are sending people to Germany in the form of job rotation...It may be short period for training purposes and visits for exchange of experience between headquarters and local units”.</p>	<p>“A lot of the marketing mix is developed in the [CEE] headquarters. And the countries are responsible for excellent execution of this initiative”.</p> <p>“95 per cent of the communication is always going through Austria. When Romania wants some information from Poland, they are asking us and we are asking Poland”.</p>
Subsidiary capability (i.e. the interest in and	Extensive/ limited emphasis on experimentation	“Four years ago, when I discussed this with Germany and the UK, they	“About four years ago, we were looking at different products to launch which	“About four to five years ago, we [the Italian subsidiary] saw a trend in the detergents that were	“We [CEE HQ in Austria] together with the German Chem HQ develop a formula on paper,

ability to improve products and processes)		[Germany] asked ‘why do you want to launch this when other paints cover well, better than those of the competitors?’”	would be innovative, different and better than what the competition has got. There were no products...the market at that point in time seemed to be following the way of developing tinting business...Looking at the UK market, there were suggestions that launching colours would not be a bad idea, because it works in the UK. However, we are afraid of advices of doing something because it works in the UK. So we did not really know which would be the preferred route”.	using this marsiglia soap as a marketing concept. It was an enormous success...We were the first to introduce it into dishwashing, then into softeners... In the beginning the test results were not enough to sell to the top management that it was a good process, but then they realized that it was possible”.	then we make a production trial in the CEE country where we want to produce this formula. The local R&D controls the production trial and makes all specification parameters, tests on density, solubility, the rinsing behaviour”. “There is mismanagement in the company. The company is not run properly...State-of-the-art product cannot be made. There is good technology and highly-skilled people available, but the whole system is totally bankrupt”.
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**Table 1: Case selection**

<b>Cases</b>	<b>British MNE-German Sub</b>	<b>British MNE-Polish Sub</b>	<b>German MNE-Italian Sub</b>	<b>German MNE-Polish Sub</b>
<b>MNE coordination structure</b>	International mode	International mode	Integrated network form	Highly centralized global mode
<b>Host context demand</b>	Demand for collaboration	Demand for operational flexibility	Demand for collaboration	Demand for operational flexibility
<b>Fit between MNE coordination structure and host context</b>	Misfit between international mode and demand for collaboration	Fit between international mode & demand for operational flexibility	Fit between integrated network mode & demand for collaboration	Misfit between highly centralized global mode and demand for operational flexibility

**Table 2: Types of agency at subsidiaries**

<b>Bundles of conditions</b>	<b>British MNE's German Sub</b>	<b>British MNE's Polish Sub</b>	<b>German MNE's Italian Sub</b>	<b>German MNE's Polish Sub</b>
MNE coordination structure	International mode	International mode	Integrated network mode	Highly centralized global mode
Host context demand	Demand for collaboration	Demand for operational flexibility	Demand for collaboration	Demand for operational flexibility
Fit between MNE coordination structure and host context demand	Misfit between international mode of coordination and demand for collaboration	Fit between international mode of coordination and demand for operational flexibility	Fit between integrated network mode of coordination and demand for collaboration	Misfit between highly centralized global mode of coordination and demand for operational flexibility
Knowledge transfer	Parent to sub	Parent to sub	Sub to parent	Parent to sub
Focus of subsidiary capability building				
	Emphasis on interdepartmental interdependency rather than an entrepreneurial style	High emphasis on experimentation despite a small and low technically-equipped R&D lab	Respected member of the Western European network with emphasis on experimentation	Member of the Eastern European network with low autonomy to experiment
Mode of entry into host country	Acquisition (1998)	Acquisition (1996)	Greenfield (1935)	Joint venture in 1931, full ownership in 1992
Mode of control	Direct, impersonal: Standardized and formalized new product development procedures		Indirect, personal: Emphasis on strong 'corporate culture', acculturating subsidiaries through international management training and secondment	Direct, personal: centralized control whereby decisions are taken by the Austrian HQ
<b>Type of agency</b>	<b><i>Passive: iterative agency (resistance to product ideas)</i></b>	<b><i>Active: projective agency (change in industry trend with the launch of colours)</i></b>	<b><i>Active: projective agency (industry trend setting by launching marsiglia-based products that were initially resisted by the parent)</i></b>	<b><i>Passive: Practical-evaluative agency (registering and labelling detergents with the Polish authorities, and performing quality checks on local products)</i></b>